

THE SWEDISH MODEL



Tco

Foreword

Interest in the Swedish model is growing, in Sweden and abroad. We are meeting an increasing number of people and organisations from other countries who want to learn more about the model for our society. This is understandable. Sweden places high in most of the rankings that are now so popular for comparing different aspects of countries. Some people go so far as to claim that Sweden has solved most of the social problems with which countries struggle. This is not the case, of course.

I am convinced that we must continue to refine the Swedish model for some time to come. It is giving rise to a growing number of problems that it has been unable to solve. The main tasks from now on are to identify these problems and to find their solutions.

In addition, it is impossible to copy a model for a society. Many of the factors that constitute the basis of the Swedish model are the products of our particular history and circumstances from long ago. Other countries have other experiences and thus a different starting point.

Despite these limitations, I hope that this paper can serve as useful background for the debate about how society should develop in our country and elsewhere.

Different actors define the Swedish model differently. We believe that in this paper we deal with these different aspects. However, because TCO is a trade union organisation, naturally we deal mostly with aspects related to the system of trade union and employer federations.

Sture Nordh
TCO President

Introduction:

The Swedish model is no slapdash construction

It emerged slowly, from the trade union struggles of the early 20th century, through many years of work for social reform, to today's policies for equality and families. All the political parties in Sweden today agree that the Swedish model works.

The model combines flexibility for companies with security and influence for employees. It has clear rules, is predictable, and has made the Swedish economy competitive. No other system has proven itself better for stability and growth.

The model rests on four pillars: strong trade unions, flexible labour laws, proactive policies for the labour market and families, and universal welfare.

Sweden has a high level of education, a widespread climate of cooperation, high technical maturity, equal opportunity, an efficient public sector with unique transparency, solid infrastructure, excellent welfare, and relatively small social gaps. Openness to the world at large, through free trade agreements and other means, has been an ever-present policy.

The independence of the parties to the labour market is the linchpin in this model. Collective agreements are the most important instrument. In central and local agreements, employers and trade unions negotiate together on the terms in the Swedish labour market and in individual companies. The employees are involved and take responsibility for the company, too. The government does not get involved, though it may set the boundaries through labour laws, as the trade union and employer federations are responsible. The government does not transform the trade union and employer federations' agreements into legislation – which it does in many other countries – as the Swedish collective agreements are civil contracts and stand on their own. There is no state labour market inspectorate that monitors compliance with the agreements. It is up to the trade union and employer federations to fulfil the agreements. The Swedish collective agreement system gives room for flexibility as it avoids the bureaucracy and political deadlock often found in legislative processes.

The employment security system provides a foundation for necessary adjustments and change. With such systems, in the form of transition agreements, unemployment insurance, and the like, employees can often accept structural change and are often involved themselves in decision-making through their union organisations.

All activities must embody equality between women and men. This is a matter of justice but is also important for the progress of society. More children are born in a society of equality, according to an analysis done by TCO, The Swedish Confederation for Professional Employees. Equality thus provides better possibilities for increasing the labour supply in the long run. Sweden

appears to be one of the countries enjoying a relatively favourable population trend and thus has a good outlook for long-term growth.

There are threats to the Swedish collective agreement model. Employment security systems are undermined when unemployment benefits are cut. Employers are less eager to sign agreements when membership numbers decline. If the government or the EU intervene and regulate conditions with laws and directives, it will weaken the right to freely negotiate and sign agreements.

The proportion of workers in unions has declined in recent years. To be able to recruit new members and to retain existing ones, trade unions must make the value of union membership more concrete for more people. This means that unions must have a greater presence in the workplace and must support individuals, take part in discussions on the future of occupations and businesses, make demands on employers, and ensure that laws and agreements are followed. It is crucial that the elected representatives have the latitude and possibility to fulfil this assignment.

Ingredient I:

Strong and independent trade unions that deliver decent real wages but also profitable companies

Voluntary agreements between trade union organisations and employers, collective agreements, create stability in the labour market. They provide clear rules and predictability. Employers are guaranteed industrial peace, employees gain influence through negotiations. Transition agreements vouch for security during structural change and drive necessary development.

The model combines flexibility for companies with security and influence for employees. The system has been shown to contribute to stability and growth. The agreements have made the Swedish economy competitive.

The model is based on mutual understanding between employers and employees. Instead of turning to labour conflict, the trade union and employer federations sit down and negotiate. The employee side is entitled to request negotiations on any issue at all in the workplace.

The basis for trade union legitimacy is a high degree of organization. About 75 percent of all wage earners – including salaried employees – belong to a trade union. Employers in turn belong to employer federations. This system of trade union and employer federations has created a spirit of consensus in which the sides negotiate to reach solutions that are acceptable to everyone.

The trade unions grew out of fierce struggles in the early 1900s. The companies' organisation was formed in 1902. The first major compromise between employers and employees came as early as 1906. It was decided that the right to organize – the right to form trade unions – would be safeguarded at the same time as rules were inserted in the collective agreement that the employer alone had the right to manage and delegate work and to employ and dismiss workers.

Legislation on collective agreements was passed in 1928, and in 1938 the employers and employees signed an agreement, called the Saltsjöbaden Agreement, in which they decided to regulate conditions in the labour market themselves to avoid legislation. The government has no mandate to get involved in negotiations, as the terms are negotiated through voluntary agreements between the parties in the labour market. The parties also have the right of strike and lockout. Thus was forged the linchpin in the Swedish model. Today, in 2008, a new Saltsjöbaden agreement is being negotiated.

The various trade unions in Sweden belong to the organisations LO, TCO, or Saco. The Swedish Trade Union Confederation (LO) organizes workers' unions, the Swedish Confederation for Professional Employees (TCO) and the Swedish Confederation of Professional Associations (Saco) those of salaried employees and academics. TCO and Saco currently have 1.8 million

members together, while LO has somewhat fewer than that total. Almost 90 percent of employees are covered by a collective agreement.

TCO and Saco are politically independent, while LO is closely associated with the Social Democratic Party.

The goals of the trade union movement were and are to improve working conditions and ensure that employees get a reasonable share of the value created in companies. These goals have been achieved.

Collective agreements regulate the fundamental terms for individuals' employment, influence, and the like during the period of the agreements. An employer is prevented from employing someone on terms or at pay less than those specified in the agreement. Thus no minimum wage legislation is necessary. However, some collective agreements may contain provisions on minimum wages. When the collective agreement takes effect, strikes and conflicts are not allowed except as sympathy action. Employers are guaranteed industrial peace through the collective agreements.

The strength of trade unions is based on the trust and commitment of their members. If the trust disappears, the trade union loses its legitimacy. This is why the collective agreements continuously must be developed and the opportunities of individuals to influence their concrete situation be expanded. The collective agreements are the most important instruments for joint influence on employment conditions for wage earners.

Both sides benefit from fixed rules in the labour market and predictability in everyday activities. The role of the trade union as protector of the collective agreement model is perceived as positive.

Today, collective agreements are concluded for each industry, with large differences between the central trade union organizations. LO's member organizations strive to coordinate wage demands. Most of the organizations for salaried employees apply a central agreement for each industry, but many agreements for unions of university graduates lack fixed pay levels and are therefore based on individual settlements. The employer and local trade union organisation determine a substantial proportion of wages.

In addition to wages, the collective agreements give the individual basic protection in working life. Trade unions work with security in the case of illness or unemployment, pensions and job security, influence over the organisation of work and the work environment, scheduling of working hours, and opportunities for professional development and in-service training courses.

In Sweden, almost all labour legislation can be replaced by collective agreements. In other words, unions and employers can adapt the regulations legislated to the terms and circumstances of different industries. This makes labour law extremely flexible. When a collective agreement is signed at a

company, it applies to all employees, regardless of whether or not they are members of a union. All employees benefit from the improvements negotiated by the unions.

The Codetermination in the Workplace Act (MBL) came in 1977. This gave employees greater possibilities for insight and influence on companies' activities through negotiations with their employer. The union organisation can pursue its demands, but the final decision lies with the employer.

Agreements can be concluded at different levels, locally or centrally. A model for solving disputes applies to issues regulated by the agreements. If one party breaks the agreement, the other party can request negotiations on the issue in dispute, which can be held locally and centrally. As a last resort, the dispute can be taken to the Swedish Labour Court, where both trade union and employer federations are represented.

In wage negotiations, the trade unions have agreed to make demands within the limits of Sweden's inflation targets. They have also accepted high profits used for investment and the development of companies. One threat to this is if companies' increased demands for profitability merely lead to increased returns to the owners and not to investment for future production.

The employee side is an active party to structural change and development. Often wage earners and their organisations have been the driving force in the process of structural change, in which the established employment security systems served as an aid to individuals who had to find new jobs.

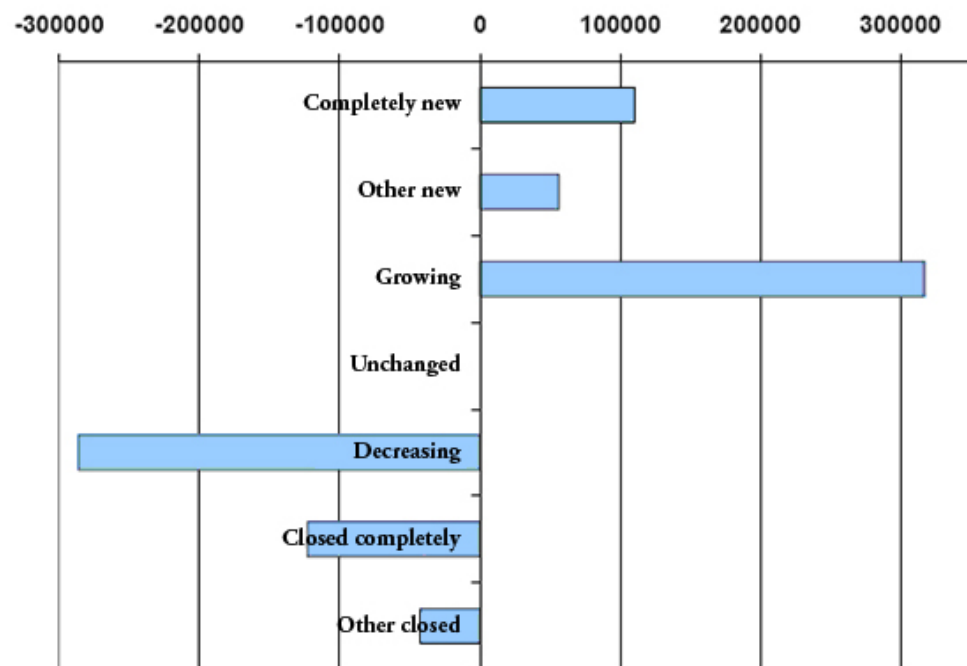
The transition agreements in collective agreements also make it easier, for employee and employer, to carry out restructuring, rationalization, or downsizing when profitability falters. An employment security council, often a foundation owned by both parties, steps in and provides support to employees who lose their jobs. Companies continuously set aside a percentage of the payroll expense for funding. A person given notice receives economic compensation and expert help in finding new work. Employment security councils, or similar bodies, are active in every sector of the labour market except the local government sector.

In other words, Swedish trade unions have invested part of the money available for higher wages in other benefits. The unions have done this because they decided it was important for the employees and to the advantage of society.

Sweden has always been open to the world at large and striven for free trade and against protective tariffs and closed borders. This attitude has hastened a necessary restructuring, from agricultural country to industrial country, from industrial country to a country where the service sector is gaining in importance.

Diagram 1

Change in the number of persons employed at workplaces founded, shut down, or changed in size during 2003



Source: TCO: TCO review, no. 10 2006, p. 34

Workplaces are shut down and new ones are created in a process of continuous structural change. Diagram 1 shows that almost a half a million employees changed jobs in Sweden in 2003. That is a high number compared to other countries.

Ingredient 2:

Strong but flexible labour laws

There is no contradiction between competitive companies and security for employees. The Swedish model shows that. Labour laws contribute to high productivity and high employment when the laws can be adapted to the needs of employers and employees in different industries through central and local collective agreements. That is not possible through legislation alone.

As early as 1906, employers and employees signed an agreement giving employers the right to “freely engage and dismiss” employees, in return for employees gaining the right to organize in trade unions. Over the years, the agreement has been renegotiated and laws have been passed circumscribing the rights of employers to dismiss employees. In 1964, a law was passed which stated that employers needed objective grounds to give notice of termination.

In 1974, the *Security of Employment Act* (LAS) was passed after many years of focused efforts by the salaried employees’ movement. With this law, the employer’s right to freely dismiss employees was abolished.

The law applies to the entire labour market and is based on two main principles. One principle is that a person normally should be employed until further notice; the other is that an employment contract can be cancelled only on objective grounds. There are also rules for periods of notice, priority, and the right to reemployment.

The purpose of the law was to grant legal rights and security to employees. Parts of the law are semi-discretionary, so the employer and employee sides are allowed to make collective agreements that complement or even override the law. That is, the law can force the sides to negotiate when notice has been given.

There are only two forms for giving notice: notice of termination or dismissal. For notice of termination, an employee receives their usual pay for at least one month; in the case of dismissal, an employee must leave directly with no pay. The reason may be that the employee has stolen or acted violently in the workplace.

Notice can only be given on objective grounds, that is, lack of work or personal reasons. The period of notice is at least one month but varies with the length of service. If the company goes bankrupt, a government guarantee takes effect and pays the salary.

Priority rules determine who will be given notice of termination. The main rule is that the person employed last must go first. An employer with 10 or fewer employees may exempt two people from the priority rules. Qualifications can also be deciding factors. The rules are discretionary, so the parties to the collective agreement can negotiate other priority rules than those

stipulated in law. In other words, they can agree to a different procedure locally. This makes the law flexible. Here the parties can give and take to achieve the best possible terms. A person who has been given notice is entitled to be reemployed within a certain period.

The *Codetermination in the Workplace Act* (MBL) has been in force since 1977. It grants trade unions participation and codetermination on important matters. The employer must provide ongoing information about the progress of operations and on guidelines in their human resources policy and is obligated to negotiate with employee representatives before decisions are made about major changes in the operations or to the conditions of work or employment for the employees. The trade union organisation has the right to negotiate and can also request negotiations on other issues. It is possible to deviate from the law using collective agreements.

The *Working Hours' Act* contains rules on how much a person can work each day, week, or year. The act discusses emergency duty hours and preparedness, what breaks and pauses one is entitled to, and what applies for rest at night. Parts of this act can be overridden by collective agreements. However, the levels in the rules that adhere to the EU's working hour directive are absolute minimum levels.

Laws against discrimination in working life counteract discrimination on account of sex, ethnicity, religion, sexual orientation, or disability. Now age is being added, in compliance with an EU directive.

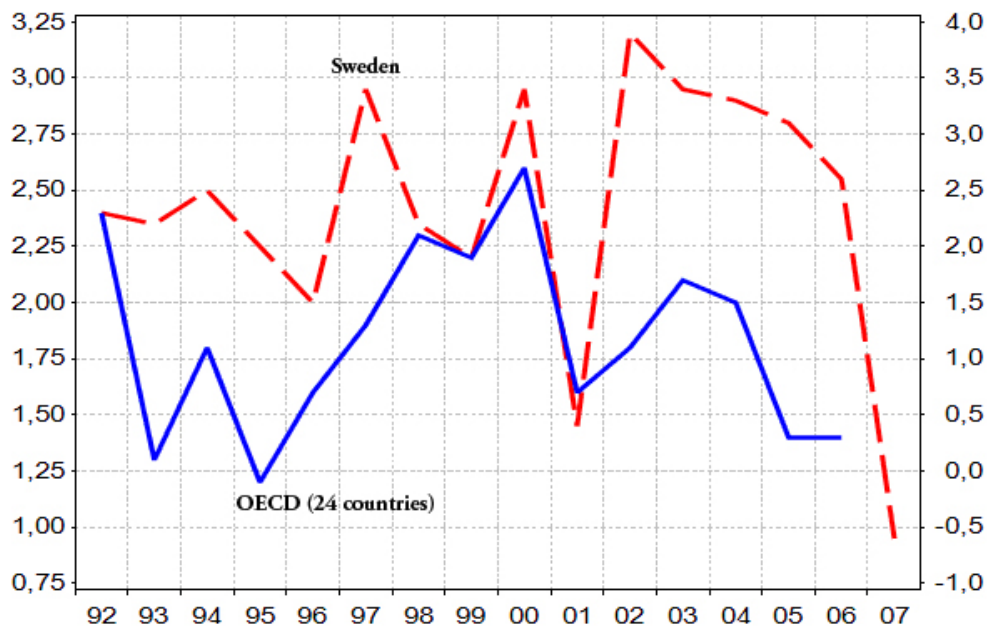
The employers are responsible for an acceptable working environment. The *Work Environment Act* contains rules on obligations for the employer and other safety and health officers to prevent illness and accidents on the job. There are also rules on cooperation between employers and employees, such as in the activities of the health and safety officers.

For an employee who has been elected union representative at a workplace with a collective agreement, the *Workplace Union Representatives Act* applies. The employer must pay the wages of a person who is working for the union in the workplace to a "fair and reasonable" extent. If the person in question is working for the union outside their own workplace, participating in a conference, or taking a course, the trade union pays compensation for loss of earnings. The Act grants the representative the right to negotiate and pursue union issues at the workplace and protects the representative from discrimination.

Most people want permanent and secure employment. It gives financial and social security. It also counteracts a poor work climate, discrimination, and illness. Employment security is central to a sustainable working life. And yet a growing number of permanent positions have been replaced by shorter contracts, by which the number of temporary employees has increased in the past few years.

Diagram 2

Labour productivity in Sweden and the OECD: Economy as a whole, year-on-year percentage change



Source: Statistics Sweden, OECD

Sweden's comparatively high labour productivity has several origins. The ability to have continuous structural transformation of production and the labour market, unbroken by repeated conflict, is generally acknowledged. The basis for this in turn is that the relationships between the parties in the labour market are grounded in collective agreements and that labour law is at the service of both the employer and employee sides and can be adapted to differing conditions in different industries and companies.

Ingredient 3:

Active labour market policies that make demands and family policies for equality

Good unemployment insurance and active labour market policies enable a person who becomes unemployed to get back to work more quickly. Transition agreements give financial support and help when people are given notice. This reduces the fear of restructuring.

Labour market policies are to ensure that the labour market works. A job seeker is to be able to easily find an employer who needs workers, and vice versa. People who are unemployed are to receive skills training and support to take the jobs available. This is called the “work line” (arbetslinjen).

The Swedish Public Employment Service is responsible for mediating jobs through offices around Sweden and via the Internet. The Service is also in charge of programmes implementing the active labour market policy, special initiatives for workers with employment disabilities, and wage guarantee compensation. The wage guarantee is paid when a company goes bankrupt. The government and the Swedish parliament oversee the Employment Service.

The task is to streamline and accelerate entry into the labour market, even for vulnerable groups such as new immigrants and the disabled. Discrimination in working life because of sex, ethnicity, religion, disability, or sexual orientation shall be resisted, so that all job seekers have the same opportunities to become employed.

Unemployment insurance is administrated by the unemployment benefit societies, which are associations under private law, in many cases linked to various trade unions. The Swedish parliament has greatly increased the fees paid to the societies and will probably make them compulsory. Insurance makes up for part of the income lost, up to an income ceiling. Anyone who earns more than that does not receive more compensation and can then, through some trade unions, buy optional insurance against loss of income.

Unemployment insurance shall be transitional insurance. The job seeker receives support and help finding a new job, which need not be in the field they just left but can be some other work, such as in an industry with a labour shortage. The Employment Service requires this and also requires that people actively look for work. The Employment Service is only allowed to mediate jobs that guarantee the benefits in collective agreements.

Almost as many women as men are employed outside the home. Statistics Sweden reports that for 2008 76.2 percent of women aged 16–64 are in the labour force, compared to 80.6 percent of men in the same age range. More women than men go on to college and university.

But the Swedish labour market has a gender division. Some occupations are almost entirely male-dominated, some are female-dominated. The Employment Service shall strive to increase equal opportunity in working life by integrating equality aspects in all decisions, planning, and implementation. In the “break-out project”, the Employment Service actively strives to end the gender division.

One important linchpin in work for equality is family policy. As early as the 1970s, TCO pursued legislation for individual taxation, that is, for married men and women to be taxed individually. This made it more profitable for women to work for pay. The establishment of childcare for all children from one year of age has been another cherished cause. Good preschools with low fees were the watchword. In 2007, a parent in Stockholm paid a maximum of SEK 1,260 per month to have a child in preschool full-time. All children are entitled to a place in preschool, and a law stipulates the maximum fee.

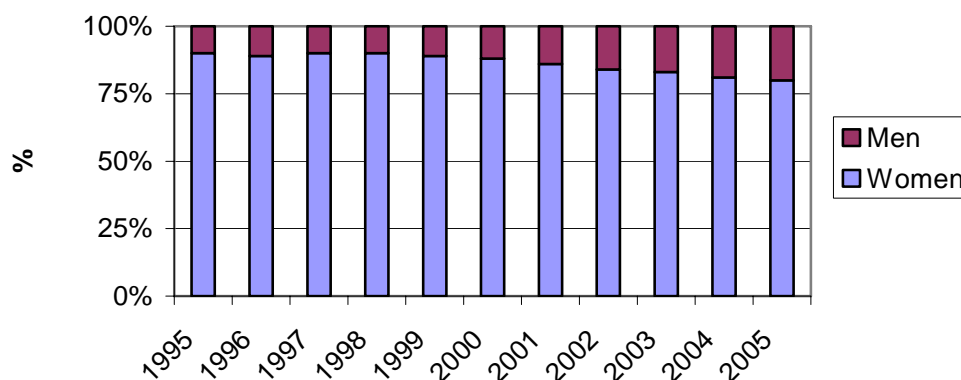
Parents’ insurance entitles parents to stay at home together with their newborn infant for 10 days. The compensation is paid by the Swedish Social Insurance Agency and is the same amount as for illness. After 10 days, a parent can stay home a total of 480 days with compensation. The father must use 60 of these days, if the mother uses the other part. Parents are entitled to take time off work.

A parent is also entitled to stay home from work with a sick child and receive compensation with temporary parents’ insurance until the child turns 12. Parents are also entitled to reduce their working hours.

Currently, Swedish fathers use 20 percent of the entire parental leave and 30 percent of time off when the child is sick. The trade unions, especially TCO, actively work for fathers to use a larger part of parental leave.

Diagram 3

**Withdrawal of parents’ allowance, 1995–2005,
percentage split between women and men**



Source: National Social Insurance Board

Employers are forbidden from disadvantaging employees in connection with parental leave, but about one employer in three obstructs parents who take leave.

In an analysis, TCO has shown that industrialized countries differ in their birth rates. Countries with a high degree of equal opportunity have higher birth rates. Thus equality provides better potential for increasing the labour supply in the long run. Population trends in industrialized countries will play a decisive role for the preconditions for long-term growth. Sweden is one of those countries whose population trends appear relatively favourable.

Countries where men and women cannot combine childbirth and a career outside the home in a positive way will not be able to maintain long-term economic growth. This can lead to poorer possibilities for the welfare systems that are necessary for a working life with equality.

Ingredient 4:

A generous welfare system, financed through taxation, that is universal but conditional

Welfare is the responsibility of the state, but trade unions have driven efforts to advance welfare. In collective agreements, trade unions have been able to improve conditions for pensions and holidays as well as health insurance payments. Basically, social insurance programmes have been preceded by agreements between the employer and trade union organisations.

Universal welfare concerns education and health care, the care of children and the elderly, and social security. It is based on high taxes, which finance universal welfare. The tax burden is accepted as long as welfare is universal and works well. It is vital to the universal welfare system that rich people also benefit from welfare if they need it and that welfare is based on social insurance programmes and not on subsidies.

Assets are transferred between social classes but also between rich and poor municipalities. Rich municipalities transfer funds to municipalities that have lower revenues but higher expenses. This allows for a reduction in discrepancies in society. All children are entitled to the same healthcare and preschool, young people are entitled to the same opportunities, to schools of a similar standard, the sick and the elderly are entitled to the same care, regardless of class or where they live in Sweden.

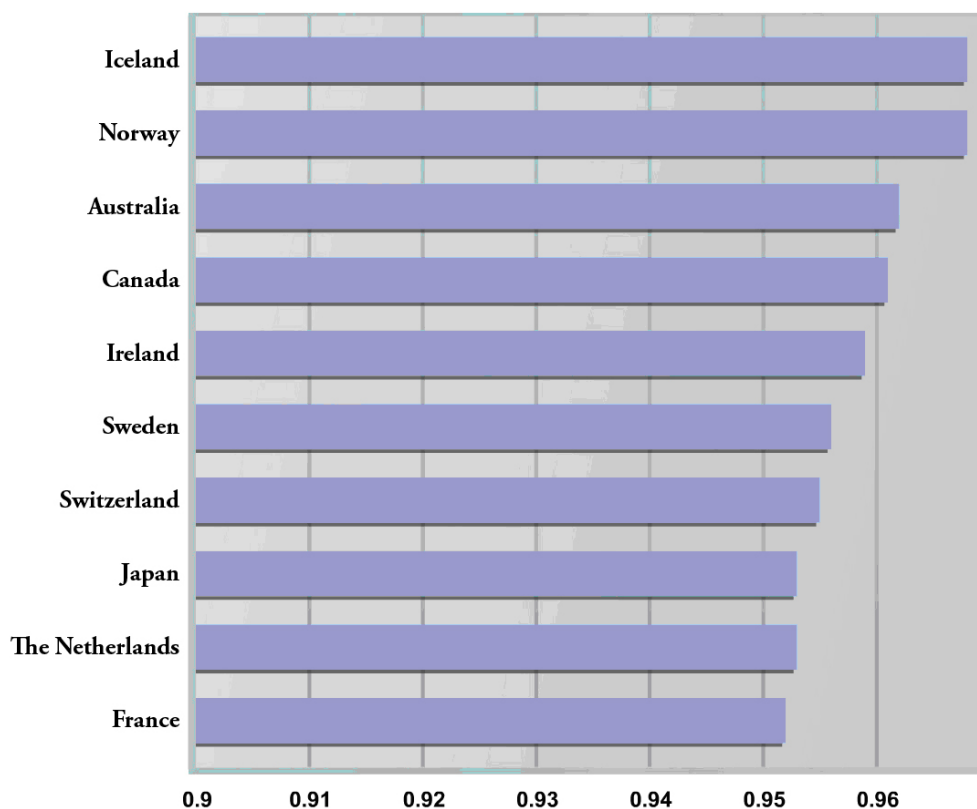
Sickness benefits are safeguarded by law, but through collective agreements trade union and employer federations have negotiated a higher level of compensation for up to one year's absence due to sickness. National insurance pays 80 percent of wages, the employer an additional 10 percent. Compensation in case of work injury, disability, or death is included in the job security package in collective agreements.

For some years, the statutory pension has comprised a national pension and a premium pension, which each person can manage as stock or fixed interest funds. It is based on income earned over the years but also follows trends in personal income in Sweden. The better things go for Sweden, the higher the pension. The employer provides an occupational pension, a complement negotiated in the collective agreements. The employer pays contributions to the pension, and the size of the pension is calculated as a percentage of the final salary. Employees may manage parts of their occupational pensions themselves.

The retirement age is 65, but it is possible to retire at 61 or to continue to work until the age of 67. If a person retires earlier or works longer, the pension is affected.

The universal welfare system has worked well for a long time in Sweden and is one of the main reasons the country has such a high ranking based on various surveys of living standards.

Diagram 4
Human Development Index 2007



Source: United Nations Development Programme (UNDP)

Closing comments

The Swedish model was no slapdash construction. It took a long time to put all the ingredients in place. It rests on the role that the independent actors have taken on over time. Being able to enter into agreements on conditions for the labour market, through consensus and without the interference of the political system, provides good working conditions for the people who work, strengthens their trade union organizations, and fosters industrial peace and predictability for companies and the private sector. The trade union and employer federations exert substantial control over existing labour law.

The role of government in the model is to provide security. The heavy emphasis on universal and jointly financed welfare has provided most people with sufficient protection from the ups and downs of life and other changes. The legitimacy for this welfare model is strong.

The Swedish model has been officially declared dead many times, chiefly – and symptomatically enough – by Swedish pundits. Outside Sweden, it is receiving more attention than ever before, ultimately because of the model's ability to deliver the desired results. With the model as a foundation, it has been possible to combine an enhanced standard of living and improved chances in life, for the overwhelming majority of the population, with steadily increasing efficiency and high profitability in the private sector.

TCO

The Swedish Confederation of Professional Employees, is the “umbrella” organisation for 16 affiliated trade unions. The 1.2 million members of these unions are professional and well educated employees who share a major responsibility for important functions in society, although in a wide variety of occupations.

They work in all parts of the labour market, for example in the schools, healthcare, trade, the media, the police, industry, IT and telecom. Over 60 percent of the members are women. Approximately half of the members work in the private sector and half in the public sector.

For more information, visit our website at **www.tco.se**



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